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SUBJECT: BULGARIA: 2009 INVESTMENT CLIMATE STATEMENT

REF: 08 STATE 123907

¶1. The following is the 2009 Investment Climate Statement for Bulgaria:

¶A. OPENNESS TO FOREIGN INVESTMENT

Bulgaria has put in place a liberal foreign investment regime, including low, flat corporate and income taxes and competitive incentives to attract high levels of foreign investment. Promising sectors for foreign investors include: energy (including alternative energies), information technology, transportation, telecommunications, and agriculture. EU integration has opened new markets for Bulgarian-produced goods and services. Bulgaria's labor market is generally well-educated and relatively low-cost. The country's geographic position places it at the crossroads of Europe, the Middle East, and the CIS. A stable U.S. ally, Bulgaria is a member of NATO, the EU and the WTO.

Investment Trends and Policies

Sound economic performance and political stability have enabled Bulgaria to attract leading foreign investors. Gradual convergence with the EU common market, fiscal prudence and a national currency pegged to the Euro have provided stability and incentives for increased trade and investment. After several years of solid growth, the global financial crunch is being felt in Bulgaria through decreasing levels of foreign direct investment and a lowered international credit rating. Bulgaria's overreliance on capital account inflows has made the economy vulnerable to external financial shocks. Nevertheless, the country's economy is forecast to have modest growth in 2009.

The Investment Promotion Act stipulates equal treatment of foreign and domestic investors. It creates conditions for improved administrative services and includes an investment incentive package. The law encourages investment in manufacturing and renewable energy, in high-technology, as well as in education and human resource development. The law explicitly recognizes intellectual property and securities as foreign investments.

Common Forms of Investment

The most common type of organization for foreign investors is a limited liability company. Other typical forms are joint stock companies, joint enterprises, business associations, general and limited partnerships, and sole proprietorships. The main controlling bodies of law are: the 1991 Commercial Code, which regulates commercial and company law, including the creation and rights of legal entities; and the 1951 Law on Obligations and Contracts, which regulates civil transactions. These laws are deemed generally adequate and they do not limit foreign participation in legal entities.

The 2003 Law on Special Purpose Investment Companies allows for public investment companies (SPIC) in real estate and receivables. Since an SPIC is considered a pass-through structure, at least 90 percent of its net income must be distributed to shareholders, who are taxed on the dividends received. A SPIC should apply for an operational license from the Financial Supervision Commission within

six months after its registration. Prospective U.S. investors should consult appropriate legal counsel for up-to-date legal information and conduct due diligence before making any obligations.

Investment Barriers

Foreign investors often encounter the following problems: a sluggish government bureaucracy; poor infrastructure; corruption; frequent changes in the legal framework; and pre-determined public tenders. In addition, a weak judicial system limits investor confidence in the courts' ability to enforce ownership and shareholders rights, contracts, and intellectual property rights. EU accession requirements have led to the adoption of a constitutional amendment which will, beginning in 2014, allow EU citizens and entities to acquire real property, while all other foreigners will be able to do so only on the basis of an international agreement ratified by the Bulgarian Parliament, thereby favoring EU investors over those from the United States. There are no legal restrictions against acquisition of land by locally registered companies with majority foreign participation, which is the method most foreigners use to purchase property in Bulgaria.

Privatization

The Privatization Agency (PA) administers the privatization of all state-owned companies. Privatization methods include: public auction, public tender, and public offerings. Foreign companies, including state-owned ones, may purchase Bulgarian state-owned firms. Bulgaria sold some of its district heating plants (Plovdiv, Russe, Varna) in 2007 as part of a major privatization package. The district heating plants in Pernik and Shumen are on the list for 2009, as is the military machine building plant in Sopot (South-Central Bulgaria). The six Free Trade Zones, which have lost influence since Bulgaria adopted a common trade regime with the rest of the EU, are also on the privatization list. In addition, in 2009 Bulgaria will again attempt to privatize the country's tobacco holding, Bulgartabac.

The 2002 Privatization and Post-Privatization Act instituted a Post-Privatization Control Agency under the authority of the Council of Ministers tasked to oversee the implementation of privatization contracts. This body ensures that non-price privatization commitments (employee retention, technology transfer, environmental liability and investment) in the privatization selection criteria are honored. In addition, creditors are no longer required to claim their receivables within six months from the start of the privatization.

Concessions

Under the 2006 Law on Concessions, the state is authorized, on the basis of a concession agreement, to grant private investors a partial monopoly. Concessions are awarded on central and/or local government property, on the basis of a tender, and are issued for up to 35 years. The concession period may not be extended beyond this time limit. The decision for awarding a concession may be appealed before the Consumer Protection Commission. There are three main concession categories: construction, services, and mining and exploration. Potential fields for concessions may therefore include the construction of roads, ports and airports, power generation and transmission, mining, petroleum exploration/drilling, telecommunications, forests and parks, beaches, and nuclear installations.

1B. CONVERSION AND TRANSFER POLICIES

In 1999, Bulgaria replaced much of its outdated and fragmented foreign currency legislation and liberalized current international transactions in accordance with IMF Article VIII obligations. Under 2003 amendments to the 1999 Foreign Currency Act, anyone may take up to BGN 25,000 or its foreign exchange equivalent out of the country without documentation. However, the export of between BGN 8,000 and BGN 25,000 or its foreign exchange equivalent must be declared at customs. Export of amounts larger than BGN 25,000 must be accompanied by a declaration about the source of these funds and supported by documents certifying that the person does not owe taxes. No tax certificate is required for foreigners exporting the cash equivalent of BGN 25,000 or greater provided the amount is equal to the amount declared (or less) when imported. The import of more than BGN 8,000 or its foreign exchange equivalent must be declared at customs.

The law also stipulates that payments abroad may be executed only

through bank transfers. Transfers over BGN 25,000 for current international payments (imports of goods and services, transportation, interest and principal payments, insurance, training, medical treatment, and other purposes defined in Bulgarian regulations) must be supported by documentation showing the need and purpose of such payments.

C. EXPROPRIATION AND COMPENSATION

According to Article 17 of the Bulgarian Constitution, private real property is protected by law. Depending upon the purpose, and only in the case that public needs cannot be met by other means, expropriation actions may be undertaken by the Council of Ministers or the Regional Governor, provided that the owner is adequately compensated. Monetary compensation at market price is the primary method. No tax is levied on the expropriation transaction. Expropriation actions of the Council of Ministers can be appealed directly to the Supreme Court on the basis of the expropriation action, the property appraisal, or the size of compensation. Regional Governor's expropriation actions can be appealed to the local court. In its Bilateral Investment Treaty (BIT) with the United States, Bulgaria committed itself to international arbitration in the event of expropriation and other investment disputes.

D. DISPUTE SETTLEMENT

The Judicial System

Bulgaria's 1991 Constitution serves as the foundation of the legal system and creates an independent judicial branch. The judiciary suffers from systematic flaws, serious backlogs and opaque procedures that hamper the swift and fair administration of justice.

Corruption remains a serious problem. Public opinion polls indicate that bribes are commonly paid in the judicial sector and some courts are beholden to business ties and political influence. Bulgaria's judicial system includes judges, prosecutors and investigators. The governing body of the judiciary is a 25-member Supreme Judicial Council (SJC) that has broad powers to appoint, discipline and dismiss magistrates. There are three levels of courts. The 117 regional courts exercise jurisdiction over civil and criminal cases. Above them, 29 district courts (including the Sofia City Court) have trial-level jurisdiction in civil cases where claims exceed 10,000 BGN, serious criminal cases, and other cases as provided by law. The district courts are also courts of appellate review for regional court decisions. First-instance civil cases are brought before one judge in the regional or the district court, depending on the case. The five appellate courts may review the decisions of the district courts. On the highest level is the Supreme Court of Cassation.

On issues of law, the Supreme Court of Cassation has appellate jurisdiction over all civil cases involving claims over 5,000 BGN and criminal cases. The new Administrative Procedure Code, adopted in April 2006, introduced the establishment of 28 courts throughout the country specialized in reviewing appeals of administrative acts.

The administrative courts officially started receiving complaints in March 2007. The decisions issued by the administrative courts can be disputed before the Supreme Administrative Court as a final appeal. The Supreme Administrative Court also rules on the legality of acts by the Council of Ministers and the ministries. The Supreme Courts hear cases in three-judge panels, whose decisions may be appealed to a five-judge panel of the same court. Decisions by the five-judge panels are final and binding. Bulgarian law provides for jurors only in criminal cases.

In 2007, the Bulgarian Parliament passed Constitutional amendments followed by a new Judicial System Act aimed at strengthening disciplining of magistrates, increasing the efficacy of the court system, and preventing corruption in the justice system. As a result, an Inspectorate was created under the SJC, which monitors the conduct of magistrates and initiates disciplinary proceedings. Nine of the eleven members of the Inspectorate were elected with a supermajority by Parliament at the end of 2007 in a highly politicized process. In 2008, the Inspectorate was fully staffed and referred over 20 cases of improper magistrates' conduct to the SJC to take disciplinary actions. The Constitutional Court is not integrated into the rest of the judiciary. It issues final interpretations of the constitution, rules on constitutional challenges to laws and acts, rules on international agreements prior to Parliamentary ratification, and reviews domestic laws to determine their consistency with international legal norms.

Bankruptcy

The 1994 Commercial Code Chapter on Bankruptcy provides for reorganization or rehabilitation of a legal entity, maximizes asset recovery and provides for fair and equal distribution among all creditors. The law applies to all commercial entities, except public monopolies or state-owned companies established by a special law. Bank bankruptcies are regulated under the Bank Bankruptcy Act, while the 1996 Insurance Act regulates insurance company failures. Under Part IV of the Commercial Code, debtors or creditors can initiate bankruptcy proceedings. The debtor must declare bankruptcy within 30 days of becoming insolvent. Once insolvency is determined, the court appoints an interim trustee to represent and manage the company, take inventory of property and assets, identify and convene the creditors, and develop a recovery plan. At the first meeting of the creditors, a trustee is nominated; usually this is just a reaffirmation of the court appointed trustee.

Non-performance of a money obligation must be adjudicated (*res judicata*) before the bankruptcy court can determine whether the debtor is insolvent. In addition, amendments passed in 2003 add a presumption of insolvency when the debtor is unable to perform an executable obligation, has suspended all payments, or when the debtor can only pay the claims of certain creditors.

Creditors must declare all debts owed to them within one month of the start of bankruptcy proceedings. The trustee then has seven days to compile a list of debts. A rehabilitation plan or a scheme of distribution (in cases of liquidation) must be proposed no later than a month after the date on which the court approves the list of debts. The court must grant approval of the plan by the creditors within seven days. After creditors' approval, the court endorses the plan and terminates the bankruptcy proceeding. The lack of trained trustees has been a problem in the past. The June 2003 amendments provided for examinations for individuals applying to become trustees and obliged the Ministers of Justice and Economy to organize annual training courses for trustees. A Regulation on the procedure for appointment, qualification and control over the trustees, developed by the Ministries of Justice, Economy and Finance was published in June 2005.

The methods of liquidating assets were also revised by the June 2003 amendments. The main objective was to establish a legal framework for selling assets that accounts for the character of bankruptcy proceedings, thus avoiding the need to apply the Civil Procedure Code. The new regime includes rules requiring a greater degree of publicity for asset sales. The amendments limited the rights to appeal judicial decisions made during bankruptcy proceedings.

Execution of Judgments

To execute a judgment, a final ruling must be obtained. The court of first instance must then be petitioned for a writ of execution (based on the judgment). On the basis of the writ of execution, a specialized category of professionals, execution agents, seize the assets or ensure the performance of the ordered action. The institutional framework for execution of judgments was improved with

a 2005 law allowing private professionals to act as execution agents. Since 2006 both private and state execution agents operate in Bulgaria. Three years after the introduction of private execution agents, businesses report a dramatic increase in the efficiency of executive of judgments. A new Civil Procedure Code, effective since March 2008, introduced new terms and practices aimed to streamline civil procedures, including the execution of judgments. Foreign judgments can be executed in Bulgaria. Execution depends on reciprocity, as well as bilateral or multilateral agreements, as determined by an official list maintained by the Ministry of Justice. The United States does not currently have reciprocity with Bulgaria; Bulgarian courts are not obliged to honor decisions of U.S. courts. All foreign judgments are handled by the Sofia City Court, which must determine that the judgment does not violate public decrees, standards, or morals before it can be executed. There are also cases defined by the Civil Procedure Code (certain real estate issues and Bulgarian precedents), in which judgments cannot be executed even if they conform to Bulgarian laws and morals.

International Arbitration

Pursuant to its Bilateral Investment Treaty (BIT) with the United States, Bulgaria has committed to a range of dispute settlement procedures starting with notification and consultations. Bulgaria accepts binding international arbitration in disputes with foreign

investors.

The most experienced arbitration institution in Bulgaria is the Arbitration Court (AC) of the Bulgarian Chamber of Commerce and Industry (BCCI). Established more than 110 years ago, the AC hears civil disputes between legal persons, one of whom must be seated outside Bulgaria. It began to act as a voluntary arbitration court between natural and/or legal persons domiciled, respectively seated in Bulgaria, since 1989.

Arbitration is regulated by the 1988 Law on International Commercial Arbitration, which complies with the United Nations Commission on International Trade Law (UNCITRAL) Model Law. According to the Code of Civil Procedure not all disputes may be resolved through arbitration. Disputes regarding rights over real estate situated in the country, alimony, or individual labor disputes may only be heard by the courts. In addition, under the Code of Private International Law of 2005, Bulgarian courts have exclusive competence over industrial property disputes regarding patents issued in Bulgaria. Regarding arbitration clauses selecting a foreign court of arbitration, the Code of Civil Procedure mandates that these clauses would only be admissible if at least one of the parties has its seat or residence abroad. As a result, foreign-owned, Bulgarian-registered companies having a dispute with a Bulgarian entity can only have arbitration in Bulgaria. However, under the Law on the International Commercial Arbitration, the arbitrator himself could be a foreign person. Under the same act, the parties can agree on the language to be used in the arbitration proceedings.

Arbitral awards are enforced through the judicial system. The party must petition the Sofia City Court for a writ of execution. Having obtained a writ however, the creditor needs then to execute the award using the general framework for execution of judgments in the country. Foreclosure proceedings may also be initiated. Bulgaria is a member of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and the 1961 European Convention on International Commercial Arbitration. Bulgaria is also a signatory of the International Center for Settlement of Investment Disputes (ICSID) convention and the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. There is a Court of Arbitration -- an ADR center for domestic business disputes -- at the Bulgarian Industrial Association (BIA).

Mediation

Mediation is a relatively new phenomenon in Bulgaria. After the adoption of the 2004 Mediation Act, BCCI and the American Chamber of Commerce (AmCham) opened commercial mediation centers with USAID-trained mediators. Mediation is still not widely used due to the relatively small pool of experienced mediators and the limited public knowledge on the possibilities of out-of-court dispute settlement.

1E. PERFORMANCE REQUIREMENTS AND INCENTIVES

Bulgaria does not impose export performance or local content requirements as a condition for establishing, maintaining, or expanding an investment. For most categories of expatriate personnel from countries outside the EU a work permit is required. Residence permits are often difficult to obtain. A 1:10 ratio requirement between foreign, non-EU residents and Bulgarian employees is applied. A June 1999 law regulating gambling imposes license requirements on foreigners organizing games of chance. The Invest Bulgaria Agency (IBA) (www.investbg.government.bg), the government's coordinating body for investment, provides information services, individual administrative services and assessment of qualification to receive investment incentives. First-class investments (investments over 70 million BGN, about USD 50 million) are deemed to be priority "Class A" investment projects. At the request of investors receiving first-class investment certificates, IBA can recommend that the competent authorities grant them free real estate (either state or municipal property). For first-class investments, the Council of Ministers may provide state financing for critical infrastructure deemed necessary for the investment plan's implementation. Additionally, IBA represents first and second-class investors "Class B" (investments of 40-70 Million BGN, about USD 28 - 50 million) before all central and territorial executive authorities and the local self-government authorities, and processes all administrative documents. The government policy for promotion of investment is not applicable to investments in coal and steel production, shipbuilding, synthetic production, agriculture, and fisheries. In 2003, the GOB introduced tax incentives for investments in regions with high unemployment. VAT exemption on

imports for investment projects over 10 million BGN (about USD 7.1 million) under certain conditions, was introduced in 2004.

F. RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

The Constitution (Article 19) states that the Bulgarian economy "shall be based on free economic initiative." Private entities can establish and own business enterprises engaging in any profit-making activities, unless expressly prohibited by law. Bulgaria's Commercial Code guarantees and regulates the free establishment, acquisition, and disposition of private business enterprises. Competitive equality is the standard applied to private enterprises in competition with public enterprises.

G. PROTECTION OF PROPERTY RIGHTS

Bulgarian law protects the acquisition and disposition of property rights. In practice, the protection of property rights is subject to various difficulties. Although Bulgarian Intellectual Property Rights (IPR) legislation is generally adequate - and in some cases stronger than in other EU countries - industry representatives believe effective IPR protection requires stronger enforcement, including stricter penalties for offenders. In 2006, Parliament carried out a major revision of the IPR-related legal framework. The Law on Copyright and Related Rights, the Law on Patents and Registration of Utility Models, the Law on Marks and Geographical Indications, the Law on Industrial Design and the Penal Code were all harmonized with international standards. As a major step toward improving the work of the judiciary, a completely new Penal Procedure Code was adopted by Parliament in 2006, while amendments to the Constitution are still being considered. The strongly criticized GOB Decree on Border Measures for Protection of IPRs was replaced by EU Regulation 1383/2003 (customs regulation) and is now being applied.

The government still needs to strengthen institutional capacity, coordination, and in some cases, the will to address major enforcement problems, especially in combating and prosecuting organized crime groups and internet pirates.

In acknowledgement of the improvements made in IPR field, in April 2006 Bulgaria was removed from the Special 301 Watch List. Although the sale of pirated optical disc media (ODM) is diminishing, Internet cyber crimes are turning out to be the greatest challenge for the GOB and creative industry. At a rate of 68 percent in 2007, software piracy is pervasive both among end users and system builders. While the government has taken some steps to address IP problems, effective enforcement remains a major issue. The deficit of understanding of the specific Internet environment has led to a heavy and inefficient investigation process. As a result, very few IPR cases reached the court in 2008.

Bulgaria is a member of the World Intellectual Property Organization (WIPO) and a signatory to key international agreements.

Copyrights

The 1993 Law on Copyright and Related Rights protects literary, artistic, and scientific works. Article 3 provides a full listing of protected works including computer programs (which are protected as literary works). The Law distinguishes between moral and economic rights. The use of protected works is prohibited without the author's permission, except in certain instances. Since 2000 the Law has undergone major revisions to comply with EU and international legislation.

The term for protection of copyrighted works is 70 years after the author's death. For films and other audio-visual works, copyrights are protected during the lives of director, screenplay-writer, cameraman, or the author of dialogue or music, plus 70 years. Other amendments to the law enable copyright owners to file civil claims to suspend the activities of pirates; provide for confiscation of equipment and pirated materials; enhance border control over pirated material; introduce a new neighboring right for film producers; and, harmonize Bulgarian legislation with the EU Association Agreement. The Copyright Office of the Ministry of Culture is responsible for copyright matters in Bulgaria. The National Film Center is responsible for enforcing intellectual property rights with regard to films and videos. Bulgarian legislation provides for criminal, civil and administrative remedies against copyright violation, but because of the small number of court judgments and sentences, law enforcement is still inadequate.

Patents

Bulgarian patent law has been harmonized with EU law in the areas of application for European patents and the patent protection in general. Bulgaria joined the Convention on the Granting of European

Patents (European Patent Convention) in 2002.

Bulgaria grants the right to exclusive use of inventions for 20 years from the date of patent application, subject to payment of annual fees. Innovations can also be protected as utility models ("small inventions"). The term of validity of a utility model registration is four years as of the filing date with the Patent Office. It may be extended by two consecutive three-year periods, but the total term of validity may not exceed 10 years. Inventions eligible for patent protection must be new, involve an inventive step and be capable of industrial application. Article 6 of the Law on Patent and Utility Model Registration lists items not regarded as inventions, and Article 7 lists the so-called exceptions to patentability. With regard to utility models, no registration shall be granted for methods and objects in the field of biotechnology.

The independent Patent Office is the competent authority with respect to patent matters. The patent law describes the application procedures and the examination process. Applications are submitted directly to the Patent Office and recorded in the state register. Compulsory licensing may be ordered under certain conditions: if the patent has not been used within four years of filing the patent application or within three years from the date of issue; the patent holder is unable to offer justification for not adequately supplying the national market; or, declaration of a national emergency.

Disputes arising from the creation, protection or use of inventions and utility models can be considered and settled under administrative, court or arbitration procedures. Disputes are reviewed by specialized panels convened by the President of the Patent Office and may be appealed to the Sofia Administrative Court within three months of the panel's decision. Patent infringements are punishable by administrative fines from 300 up to 20,000 BGN. In 1996, Parliament approved the Protection of New Types of Plants and Animal Breeds Act. This Certificate allows for a term of protection of 25 years for annual plants and 30 years for perennial plants and animal breeds, which starts from its date of issuance by the Patent Office. In 1998, Parliament ratified the 1991 International Convention for the Protection of New Varieties of Plants (UPOV).

Data Exclusivity

Responding to long-standing industry concerns, the GOB included a provision to provide data exclusivity (protection of confidential data submitted to the government to obtain approval to market pharmaceutical products) in its Drug Law, which took effect in April 2007. As of January 1, 2007, Bulgaria grants supplemental protection certificates for pharmaceutical products and plant protection products under the EU Regulations. This protection is similar to that provided in the U.S.

Trademarks

In 1999, Parliament passed a series of laws on trademarks and geographical indications, industrial designs and integrated circuits in accordance with TRIPS requirements and the government's EU Association Agreement. The Trademarks and Geographical Indications Act, which was amended in 2005 and 2006 to comply with EU standards, regulates the establishment, use, suspension, renewal and protection of rights of trademarks, collective and certificate marks, and geographic indications.

Registration is refused, or an existing registered trademark is cancelled, if a trademark constitutes a reproduction or an imitation, or if it creates confusion with a registered or well-known trademark, as stipulated by the Paris Convention and the Trademarks and Geographical Indications Act. Applications for registration must be submitted to the Patent Office under specified procedures.

With amendments in the Trademarks and Geographical Indications Act in October 2006, well-known marks can now be determined as such by the Patent Office or by Sofia Administrative Court and entered in a special state register. In addition, Bulgaria is a member of the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration, which makes protections for appellations of origin protection possible.

Right of priority with respect to trademarks that do not differ substantially is given to the application that was filed in compliance with Article 32. Right of priority is also established on the basis of a request made in one of the member countries of the Paris Convention or of the World Trade Organization. To exercise the right of priority, the applicant must file a request within six

months of the date of original filing.

A trademark is normally granted within eighteen months of filing a complete application. Refusals can be appealed before the Disputes Department at the Patent Office. The decisions of this department can be appealed before the Sofia Administrative Court within three months following notification. The right of exclusive use of a trademark is granted for ten years from the date of submitting the application. Requests for extension of protection must be filed during the final year of validity, but not less than six months prior to expiration. Protection is terminated if a mark is not used for a five-year period.

Trademark infringement is a problem in Bulgaria for many U.S. manufacturers. Bulgarian legislation provides for criminal, civil and administrative remedies against trademark violation, but due to the low record of court resolutions and effective sentences, law enforcement is inadequate. While more draconian measures are available, such as imprisonment of up to five years, confiscation or fines of up to 5,000 BGN, their application is rare.

In Bulgaria, trademark and service-marks and rights to geographic indications are only protected pursuant to registration with the Bulgarian Patent Office or an international registration mentioning Bulgaria; they do not arise simply with "use in commerce" of the mark or indication. Under Bulgarian law, legal entities cannot be held criminally liable. Similarly, criminal penalties for copyright infringement and willful trademark infringement are limited, compared to enforcement mechanisms available under U.S. law.

Industrial Designs

According to the Bulgarian design law, industrial designs which are new and original can be granted certificates and entered in a state register. The term of protection is 10 years, which could be renewed for up to 25 years. The procedure and conditions for enforcement of rights are similar to those provided for trade marks.

H. TRANSPARENCY OF REGULATORY SYSTEM

Major Taxation Issues Affecting U.S. Businesses

The Treaty for Avoidance of Double Taxation (TADT) between the United States and Bulgaria that was signed in February 2007, entered into force on January 1, 2009. The Treaty applies to direct taxes only and excludes indirect levies, such as value-added and excise taxes, as well as all social contributions. It also applies to all sources of income that residents of either state have received "at source" in the other state. The TADT is expected to reduce the tax burden for residents of both states, which will stimulate cross-border trade and investment.

A flat 10 percent tax rate on income is in place since January 2008, replacing the old progressive taxation. The new flat income tax matches a corporate and profit tax rate of 10 percent making Bulgaria one of the EU member states with the lowest direct taxes. Certain tax incentives, such as an exemption from corporate tax, apply in regions of high unemployment. Physical persons, but not legal ones in certain trades, pay a "patent" tax (presumptive tax), according to a schedule established by Parliament. Since January 1, 2008, the size of the "patent tax" is determined by and payable to the municipal authorities. Dividends (and liquidation quotas) distributed by a Bulgarian resident company to U.S. investors are subject to a withholding tax of 5 percent at the source. A 50 percent depreciation rate is applied on investment in new machinery and other equipment, computers and computer software.

The changes introduced in 2008 refer to a new monthly ceiling of BGN 2,000 for social contributions. Employers pay 60 percent of the monthly contributions for social security insurance and health insurance to an unemployment fund, but their share of contributions is slated to decline, in phases, to 50 percent by 2010. Employers must contribute for social security insurance and health insurance: 13.1 percent and 4.8 percent of employees' gross salaries, respectively. Companies also contribute one percent of the total wage cost to an unemployment fund which also covers accidents at work. Foreign persons are required to have the same insurance and unemployment compensation packages as Bulgarians.

There is a 20 percent single-rate value-added tax (VAT), except for some tourist services upon which VAT is levied at seven percent rate. VAT registration is mandatory for persons with turnover exceeding BGN 50,000 over a calendar year, while all others can register voluntarily. A new VAT regime is in place for trade in goods between Bulgaria and the other EU member countries. All goods and services are subject to VAT except exports,

international transport, and precious metals supplied to the central bank. VAT payments are generally rebated when goods are resold. Exporters may claim VAT refunding within a 30-day period. Excise taxes are levied on tobacco, alcoholic beverages, fuels, certain types of automobiles, and gambling. Investors are entitled to VAT refunds on locally purchased goods within 10 days if they meet certain investment criteria.

Foreign investors have asserted that widespread tax evasion, combined with the failure of the authorities to enforce collection, place them at a disadvantage. However, in conjunction with its IMF agreement, the government has strengthened tax collection and limited tax arrears of state-owned enterprises. Another problem underscored by investors is the frequent revision of tax laws, sometimes without sufficient notice. The full harmonization of domestic tax legislation with the EU law is expected to lead to more transparent and predictable tax environment.

Regulatory Environment

An abundance of licensing and regulatory regimes, combined with arbitrary interpretation and enforcement by the bureaucracy, and the incentives thus created for corruption, are an impediment to investment.

In 2003, Parliament passed the Restriction of Administrative Regulation and Control of Economic Activity Act, which establishes a general and systematized set of rules for simplifying and implementing administrative regulations. The law defines 39 operations that must be licensed and introduces two other simplified regimes, i.e., registration and permit regimes.

From the perspective of regulatory relief, this law was a milestone.

It sets forth firm market principles of regulation, requires that regulation at all levels of government must be justified by defined need (in terms of national security, environmental protection, or personal and material rights of citizens) and cannot impose restrictions unnecessary to the stated purposes of the regulation. The law also requires that the regulating authority take account of the compliance costs to be borne by business and that no national-level law can be passed without an impact analysis on the law's economic effect on the regulated activity. In addition, the law eliminates bureaucratic discretion in granting applications for routine economic activities and provides for "silent consent" when the government has not acted upon an application in the allotted time. All these reforms considerably lighten the potential of regulatory abuse at all levels of government. While the law creates a ground-breaking normative framework, its practical enforcement is dependent upon movement towards a more flexible bureaucratic environment.

Energy Regulator

The Energy Law establishes a predictable regulatory environment in the energy sector where the key regulatory responsibilities are vested with the State Energy and Water Regulatory Commission - a separate body with regulatory authorities. In mid-2007 the electricity market in Bulgaria was liberalized to comply with EU energy legislation. The restructuring of electricity monopolies provided equal market access and fair competition in the sector.

Competition Policy

A new 2008 Law on the Protection of Competition (the "Competition Law") is intended to establish and maintain a competitive market in compliance with EU rules. The Competition Law forbids monopolies, restraining agreements, trade restrictive practices, abuse of a dominant market position, and unfair competition, and seeks to promote consumer protection. Companies are prohibited from: direct or indirect pricing practices; distribution of market shares and supply sources; limiting manufacturing development to the detriment of consumers; discriminatory treatment of competing customers; tying contracts to additional and unrelated obligations; and the use of economic coercion to cause mergers. The Law prohibits certain forms of unfair competition: damaging competitors' goodwill; misrepresentation with respect to goods or services; misrepresentation with respect to the origin, manufacturer, or other features of goods or services; the use or disclosure of someone else's trade secrets in violation of good faith commercial practices; and, "unfair solicitation of customers" (promotion through gifts and lotteries), which may create difficulties for some foreign enterprises. Monopoly position can be established only by law and for certain categories of activities: railway and postal

services; use of atomic energy; production of radioactive materials; and weapons production.

The Competition Law expands the competency of the Commission for Protection of Competition (CPC), defines the prohibition on misuse of an oligopoly and imposes a single criterion for assessing the significance of planned concentration: the aggregate turnover of the enterprises affected by the concentration.

II. EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

Since 1997, the Bulgarian Stock Exchange (BSE) has operated under a license from the Securities and Stock Exchange Commission (SSEC). The 1999 Law on Public Offering of Securities regulates issuance of securities, securities transactions, stock exchanges, and investment intermediaries. Comprehensive amendments to this Law establish significant rights for minority shareholders of publicly-owned companies in Bulgaria. In addition, they create an important foundation for the adoption of international best practices for corporate governance principles in public companies.

The infrastructure of the stock exchange has been substantially improved in recent years, including the establishment of an official index (SOFIX). In addition to floating company stock and privatization through the exchange, the Bulgarian stock exchange also trades in government bonds, corporate bonds, Bulgarian Depositary Receipts, municipal and mortgage-backed bonds, and Bulgarian Depositary Receipts. Raising capital has become increasingly attractive, and more competitive, with the advent of special purpose investment companies (REITs) which have aggressively invested in the economy. Trading has been facilitated by the growing number of investment brokers and a joint database for secure access in place.

The BSE suffered visibly in 2008 as a result of the global financial crisis. In 2008, BSE's market capitalization lost almost 60 percent over 2007, reaching BGN 12.3 Billion (\$9.2 Billion). The major index, SOFIX, went down 80 percent on the year, with the remaining three indexes also ending up deeply in red territory. At the same time, the share turnover on the regulated market lost 75 percent, while the number of transactions went down 18 percent. The number of initial public offerings (IPOs) was unchanged at 23, the same as in 2007, after IPOs were discontinued in mid-June 2008. The GOB still plans to sell its part in the Bulgarian stock exchange to a world-renown capital and stock market.

The Banking System

The Bulgarian banking system has undergone considerable transformation since its virtual collapse in 1996 and now demonstrates both high predictability and client and investor confidence. There are 30 commercial banks (24 subsidiaries and 6 branches), with total assets of 68.8 billion BGN (about USD 44.8 billion) and an annual growth of 25.1 percent in November 2008 or 104 percent of the projected 2008 GDP. Approximately 39.2 percent of bank assets are concentrated in three banks: Bulbank, DSKBank, and United Bulgarian Bank (UBB).

Bulgaria has completed the privatization of its state-owned banks, attracting some strong foreign banks as strategic investors. Foreign investors drawn to the Bulgarian banking industry include UniCredito Italiano SpA (UCI), BNP PARIBAS, KBC, National Bank of Greece, Societe Generale, Bank Austria Creditanstalt, Raiffeisen International, OTP Group, American Life Insurance Company - Consolidated Eurofinance Holdings, Regent Pacific Group, and Citibank.

Bulgaria's banking system is highly capitalized. Reflecting expanded lending in recent years, the average capital adequacy ratio (capital base to risk-weighted credit exposures) for the banking system has steadily declined from 43 percent at end-1998 to 14.4 percent in September 2008, but still remains above the Bulgarian National Bank's requirement of 12 percent. Domestic banks have responded to the global financial crisis by reducing risk exposure through an increase in interest rates on both deposits and loans.

Government Securities

The government finances government expenditures by accessing capital markets. Commercial banks are the primary purchasers of these instruments, while pension funds and insurance companies participate mainly in the secondary market. Banks from the EU can be primary dealers of the governments bonds as well. They have to apply and go through the procedure for a primary dealer.

The foreign bank transfers the money, which is then converted into leva to make the purchase, and must be registered with the Ministry

of Finance. The foreign bank must open a lev account (a "custody account") for transactions. This lev account cannot be used as a standard deposit bank account. A foreign currency account can be opened, but it is not obligatory.

The Investment Promotion Act defines securities, including treasury bills, with maturities over six months as investments. Repatriation of profits is possible after presenting documentation that taxes have been paid.

J. POLITICAL VIOLENCE

There have been no incidents in recent years involving politically motivated damage to projects or installations. Rather, violence in Bulgaria is primarily criminally motivated.

K. CORRUPTION

Corruption is still one of the gravest problems in Bulgaria's investment climate, despite the Bulgarian government's numerous advances in laws and legal instruments. Bulgaria ranks 72nd among 180 countries included in Transparency International's (TI) Corruption Perception Index for 2008, down eight places from 2007. The established human trafficking, narcotics, and contraband smuggling channels that contribute to corruption in Bulgaria have yet to be broken, and serious efforts and political will are still needed to carry out much-needed reforms to address inefficiencies in the judicial system. The Bulgarian public generally holds the police, the judiciary, customs officials, and political parties in low regard, due to their perceived corruption.

Bribery is a criminal act under Bulgarian law for both the giver and the receiver. Penalties range from one to fifteen years'

imprisonment, depending on the circumstances of the case, with confiscation of property added in more serious cases. In very grave cases, the Penal Code specifies prison terms of 10 to 30 years.

Bribing a foreign official is a criminal act. There have been trials and convictions of enterprise managers, prosecutors, and law enforcement officials for corruption. While Bulgarian tax legislation does not explicitly prohibit the deduction of bribes in the computation of domestic taxes, deductions connected with bribery and other illegal activities are not allowed under the tax code.

Bulgaria has a 1998 Law on Measures against Money Laundering, which also covers bribery, and in 1998 was one of the first non-OECD nations to ratify the OECD Anti-Bribery Convention. Bulgaria has also ratified the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of Proceeds of Crime (1994) and the Civil Convention on Corruption (1999). Bulgaria has signed and ratified the UN Convention against Corruption (2003); the Additional Protocol to the Council of Europe's Criminal Law Convention on Corruption; and the UN Convention Against Transnational Organized Crime.

Although the Bulgarian government has achieved some successes in the fight against organized crime and corruption, corruption and political influence in business decision-making continue to be significant problems in Bulgaria's investment climate.

L. BILATERAL INVESTMENT AGREEMENTS

As of February 2007, Bulgaria has foreign investment promotion and protection treaties or agreements with Albania, Algeria, Argentina, Armenia, Austria, Belarus, Belgium-Luxembourg, China, Croatia, Cuba, Cyprus, Czech Republic, Denmark, Egypt, Finland, France, Georgia, Germany, Greece, Hungary, India, Indonesia, Iran, Israel, Italy, Jordan, Kazakhstan, Kuwait, Latvia, Lithuania, Lebanon, Macedonia, Malta, Moldova, Mongolia, Morocco, Netherlands, Poland, Portugal, Republic of Korea, Romania, Russia, Singapore, Slovakia, Slovenia, Spain, Sweden, Switzerland, Syria, Thailand, Tunisia, Turkey, Ukraine, the United Kingdom of Great Britain and Northern Ireland, the United States, Uzbekistan, Vietnam, Yemen, Yugoslavia, and Zimbabwe.

Bulgaria has a Bilateral Investment Treaty (BIT) with the United States, which guarantees national treatment for U.S. investments and creates a dispute settlement process. The BIT also includes a side letter on protections for intellectual property rights. The Governments of Bulgaria and the United States exchanged notes in 2003 to make Bulgaria's obligations under the BIT compatible with its EU obligations, and finalized the process in January, 2007.

M. OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

In 1991, the Overseas Private Investment Corporation (OPIC) (www.opic.gov) and the GOB signed an Investment Incentive Agreement, which governs OPIC's operations in Bulgaria. OPIC provides medium- to long-term funding through direct loans and loan guarantees to eligible investment projects in developing countries and emerging markets. OPIC also supports a number of privately owned and managed equity funds, including a regional fund for Southeast Europe created

in 2005 for investments in companies in Bulgaria and other Balkan countries.

OPIC's Small- and Medium-Size Financing is available for businesses with annual revenues under 250 Million USD. OPIC's Structured Financing focuses on U.S. businesses with annual revenue over 250 Million USD and supports large-scale projects that require large amount of capital, such as infrastructure, telecommunications, power, water, housing, airports, hi-tech, and financial services. OPIC offers American investors insurance against currency inconvertibility, expropriation, and political violence. Political risk insurance is also available from the Multilateral Investment Guarantee Agency (MIGA), which is a World Bank affiliate, as well as from a number of private U.S. companies.

IV. LABOR

Bulgaria's workforce officially consists of 3,544,700 (third quarter of 2008) well educated and skilled men (53 percent) and women (47 percent). The adult literacy rate in Bulgaria is 98 percent. A high percentage of the workforce has completed some form of secondary, technical, or vocational education. Many Bulgarians have strong backgrounds in engineering, medicine, economics, and the sciences, but there is a shortage of professionals with Western management skills. The demand for skilled managers is increasing with an influx of high technology, innovative and knowledge-based companies from the EU. The aptitude of workers and the relative low cost of labor are considerable incentives for foreign companies, especially those that are labor intensive, to invest in Bulgaria. Bulgaria's Constitution recognizes workers' right to join trade unions and organize. The National Council for Tripartite Cooperation (NCTC) provides a forum for dialog among government, national-level employer organisations, and national-level trade unions, on issues such as cost-of-living adjustments. An established practice each year of negotiating the so-called "social security thresholds" between trade unions and the employers organizations helps determine the minimum monetary basis for calculating the amount of the social securities that both employer and employee should pay.

Bulgaria has two large trade union confederations represented at national level, the Confederation of Independent Trade Unions of Bulgaria (CITUB) and Confederation of Labour "Podkrepa" ("Support").

At the end of 2008, the estimated trade union membership is about 350 000 for CITUB and over 100 000 for CL "Podkrepa." CITUB, the successor to the trade union integrated with the Communist Party, has been reformed and has long since severed its ties to the socialists, whereas Podkrepa is an independent confederation. There are very few restrictions on trade union activity and the confederations operate freely, but the workforce in smaller firms in the private sector is often not represented by trade unions. In addition, there are six nationally recognized employer organizations currently in Bulgaria which target different industry and company membership.

Under the Labor Code, employer and employee relations are regulated by employment contracts. The framework of the employment contracts can be shaped through collective bargaining. Following the Labor Code, collective agreements (collective labor contracts) can be concluded at the sectoral level, enterprise level and municipal level (only for activities financed by the budget). The Labor Code addresses worker occupational safety and health issues, establishes a minimum wage (determined by the Council of Ministers), and prevents exploitation of workers, including child labor. The Code clearly delineates employer rights, strengthening management's hand in disciplining the workforce. Disputes between labor and management can be referred to the courts, but resolution is often subject to delays. The idea for establishing so-called "labor courts" has so far been in deadlock. Neither foreign companies, nor Bulgarian companies having majority foreign-control are exempt from the requirements of the Labor Code.

Over the last four years, the Labor Code has been amended to address labor market rigidities and bring labor legislation into compliance with the EU social policy and employment requirements. The amendments to the Labor Code simplify additional work procedures, restrict mandatory leaves, and relax procedures for implementing collective redundancies. In 2008, GOB passed changes in the labor legislation which establish high fines, which an employer must pay if s/he violates the Labor Code. The fines could reach up to 15 000 Euros. The minimum annual paid leave is 20 days. Effective January 1, 2009, the minimum monthly salary is 240 BGN (\$171). During 2002-2003, the Ministry of Labor formed the new "National Institute for Conciliation and Arbitration" (NICA), which developed

a framework for collective labor dispute mediation and arbitration. NICA includes representatives from labor, employers, and the Government, as does the roster of mediators and arbitrators. NICA-sponsored collective labor dispute resolutions are still few in number. A number of the appointed mediators received basic mediation skills training from the U.S. Federal Mediation and Conciliation Service.

10. FOREIGN-TRADE ZONES/ FREE PORTS

The 1999 Customs Act renamed the six duty-free zones "free zones." Foreign, including U.S., individuals and corporations, and Bulgarian companies with 1.0 percent or more foreign ownership may set up operations in a free zone. Thus, foreign-owned firms have equal or better investment opportunities in the zones compared to Bulgarian firms.

There are at present six operational "free zones" in Bulgaria: Ruse and Vidin ports on the Danube; Plovdiv; Svilengrad (near the Turkish border); Dragoman (near the Yugoslav border); and Burgas port on the Black Sea. They are all managed by joint stock or state-owned companies. The government provided land and infrastructure for each zone.

All forms of production and trade activities and services may take place in the free zones. Foreign, non-EU goods delivered to the free zones for production, storage, processing, or re-export are VAT and duty exempt. Bulgarian goods may also be stored in free zones with permission from the customs authorities. With Bulgaria now in the EU, the export of goods of EU origin via the FTZs has lost importance, as the new VAT regime requires full price payment, VAT inclusive, before selling it into another EU Member State. The six FTZs are slated for privatization in 2009.

EU integration has encouraged regional authorities to attract outside investors and spur local economic development. In partnership with the private sector, they provide resources (ground, infrastructure, etc.) for the development of industrial zones and parks, which are different from FTZs as they do not provide for any form of preferential tax treatment. International and local investors can use the favorable factors, such as low-cost and educated labor and easy access to the local market, to relocate their business. Currently, there are a total of 35 industrial parks at various stages of development, with the most advanced being the industrial parks near Sofia, Rakovski, Panagyurishte, Stara Zagora, Silistra, Pazardzhik, Kardzhali, Dobrich, Varna, and Ruse.

11. FOREIGN DIRECT INVESTMENT STATISTICS

Between 1992 and 2007, total cumulative FDI into Bulgaria amounted to \$31,637.8 billion (88 percent of GDP in 2007). FDI in 2007 totaled \$8.9 billion (22.6 percent of GDP). Bulgaria's direct investment stock abroad was a total of \$571.5 million in 2007.

FDI by Year (millions of U.S. dollars)

1992	34.4
1993	102.4
1994	210.9
1995	162.6
1996	256.4
1997	636.2
1998	620.0
1999	818.8
2000	1,005
2001	812.9
2002	969.7
2003	2,099
2004	34434
2005	3,927
2006	7,568
2007	8,982
Total	31,68

(Source: Invest Bulgaria Agency)

FDI by Country of Origin 1996-2007 (millions of USD)

Austria	4,876
Netherlands	3,312
Greece	2,897
U.K.	2,745
Belgium and Luxembourg	1,68.5
Germany	1,67.8
Cyprus	1,314.0
USA *	1,208.0

Hungary	1,198.2
Switzerland	1,018.7
Ireland	992.2
Spain	971.4
Italy	970.9
Czech Republic	928.1
Russia	687.2
France	452.3
Turkey	343.6
Denmark	256.1
Israel	190.2
Slovenia	179.2
Latvia	163.8
Malta	153.4
Sweden	127.7
Japan	125.6
Liechtenstein	121.0
Estonia	106.8
Norway	86.8

(Source: Invest Bulgaria Agency)

* Owing to methodological quirks, not all data accurately reflect investment rankings. Official GOB investment statistics currently rank the United States 8th in terms of overall investment in Bulgaria for the period 1992-2007. While the Central Bank credits the United States with investments at the rate of \$40-\$50 million per year in the last eight years, this data is incomplete as many U.S. investors establish European subsidiaries to manage their investments in Bulgaria.

FDI by industry 2000-2007 (millions of USD)

Real estate and business activities	6,731.6
Financial activities	5,528.4
Manufacturing	4,689.2
Trade and repairs	4,660.2
Construction	2,075.2
Electricity, gas and water	2,035.4
Telecommunications and transport	1,643.6
Hotels and restaurants	481.1
Mining	151.3
Agriculture, forestry and fishing	125.3
Education	13.2

(Source: Bulgarian National Bank)

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